OntarioFinancingAuthority

bulletin 2007-08 First Quarter Ontario Finances

Ontario

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Fiscal Summary

($ Millions)	Actual 2006-07	2007-08 Budget Plan	2007-08 Current* Outlook	2007-08 In-Year Change
Revenue	**90,397**	**91,503**	**92,086**	**583**
Expense				
Programs	79,297	82,030	82,269	239
Interest on Debt	8,831	9,123	9,067	(56)
Total Expense	88,128	91,153	91,336	183
Surplus/(Deficit) Before Reserve	**2,269**	**350**	**750**	**400**
Reserve	–	750	750	–
Surplus/(Deficit)	**2,269**	**(400)**	**0**	**400**

* First-quarter fiscal forecast as at June 30, 2007.

The fiscal outlook is in line with the steady improvement in the Province's finances since 2003-04, resulting from a growing economy and the government's commitment to prudent and disciplined fiscal management.

The government has made great progress in restoring the Province's finances to a healthy state, particularly given that when the government came into office in 2003, an independent review of Ontario's finances concluded that the Province was on track to post a significant deficit in 2003-04, which has since been confirmed to have been $5.5 billion. In 2004-05 the deficit was reduced to $1.6 billion, in 2005-06 Ontario posted a surplus of $0.3 billion, and the Public Accounts of Ontario confirm a $2.3 billion surplus in 2006-07 – the government's second consecutive surplus. Through prudent and disciplined fiscal management, the government has been able to quickly eliminate the deficit while still making major investments in priority areas such as health, education, infrastructure, social services and postsecondary education. As a result, the Province of Ontario is now on track to exceed its fiscal target for the fourth consecutive year.

First-quarter results indicate the fiscal outlook for 2007-08 has improved by $400 million from the 2007-08 Budget Plan. The Province is now projecting a $750 million surplus, or a balanced budget if the reserve is required. This improvement is primarily due to higher projected federal transfers and tax revenues, combined with lower expected interest on debt expense. In addition to balancing the budget, the government has been making strategic investments in climate change initiatives, child care, agriculture sector support and education, even in the face of an appreciating Canadian dollar, continuing high oil prices, higher interest rates and an easing in the pace of growth in the U.S. economy. The Province's improved fiscal performance so far this year will also contribute to a further improvement in Ontario's debt-to-GDP ratio (whereby debt is accumulated deficit) which is now projected at 18.5 per cent in 2007-08.

Revenue at $92.1 billion

The 2007-08 revenue outlook, at $92,086 million, is $583 million above the 2007 Budget forecast. This increase reflects the impacts of the 2007 federal budget as reported in the Pre-Election Report, new information on tax revenues, Ontario tax changes to promote energy efficiency, and other small revenue changes associated with expense changes.

Total Expense at $91.3 billion

The 2007-08 total expense outlook, at $91,336 million, is $183 million higher than forecast in the 2007 Budget. This change is mainly due to a proposed $230 million increase in the Operating Contingency Fund, combined with $56 million in interest on debt savings.

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2007-08 Long-Term Public Borrowing

The total long-term public borrowing requirement for 2007-08 is estimated at $17,673 million, down $1,085 million from the $18,758 million estimated in the 2007 Budget. The higher than forecast surplus in 2006-07 has reduced the Province's cash needs by $1,050 million in 2007-08. Other changes include:

- $400 million decline due to the elimination of the deficit
- $477 million decline in non-cash adjustments, mainly due to additional cash transfers to the Province from the federal trusts
- $831 million increase in net loans/investments is primarily due to loans to Ontario Power Generation Inc. (OPG) for general corporate purposes and for refinancing maturities
- $113 million decline in debt maturities is mainly due to the Province not exercising call options on some of its debt issues, while a $113 million increase in debt redemptions is a result of higher-than-forecast redemptions of Ontario Saving Bonds (OSB) in June
- $11 million change in short-term borrowing is a result of a lower-than-expected drawdown of the Ontario Power Authority line of credit.

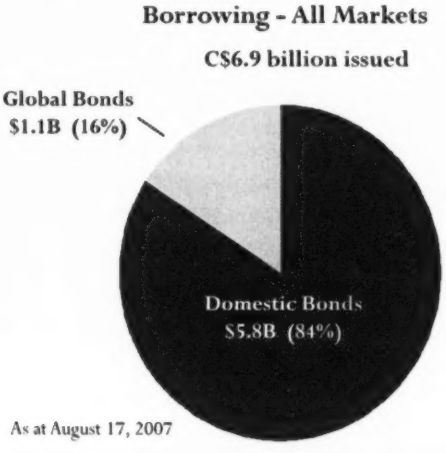
		2007-08		
($ Millions)	**Actual 2006-07**	**Budget Plan**	**Current* Outlook**	**In-Year Change**
Deficit/(Surplus)	(2,269)	400	0	(400)
Non-Cash Adjustments	1,720	(468)	(945)	(477)
Investment in Capital Assets	2,120	3,334	3,334	–
Net Loans/Investments	1,736	1,173	2,004	831
Debt Maturities	13,966	14,413	14,300	(113)
Debt Redemptions	1,041	887	1,000	113
Total Funding Requirement	**18,314**	**19,739**	**19,693**	**(46)**
Canada Pension Plan Borrowing	(185)	(431)	(431)	–
Decrease/(Increase) in Short-Term Borrowing	1,370	(550)	(539)	11
Increase/(Decrease) in Cash and Cash Equivalents	(804)	–	(1,050)	(1,050)
Total Long-Term Public Borrowing Requirement	**18,695**	**18,758**	**17,673**	**(1,085)**

* First-quarter fiscal forecast as at June 30, 2007. Consolidated Province and Ontario Electricity Financial Corporation (OEFC).

BORROWING PROGRAM STATUS (AS AT AUGUST 17, 2007)

($ Billions)	**Completed**	**Remaining**	**Total**
Province	6.4	8.6	15.0
Ontario Electricity Financial Corporation	0.5	2.2	2.7
Total	6.9	10.8	17.7

Borrowing Approach



As of June 30, 2007, the Province had borrowed $5.3 billion. Since the end of the quarter, the Province has raised an additional $1.6 billion, for a total of $6.9 billion as at August 17, 2007, leaving $10.8 billion to be completed.

The Province issued one 10-year U.S.$1 billion global bond, six $600 million domestic syndicated bonds, two $500 million auctions, and a number of domestic medium-term notes. The Province also raised $1.3 billion from the annual Ontario Savings Bond program.

The Canadian domestic market will continue to remain the main funding source in 2007-08. As always, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for diversified borrowing opportunities. Approximately 25 per cent of the long-term borrowing program is targeted for international markets.

Medium-Term Borrowing Outlook

($ Billions)	2007-08	2008-09	2009-10
Deficit/(Surplus)	0	(0.3)	(0.4)
Non-Cash Adjustments	(0.9)	(0.8)	(0.7)
Investment in Capital Assets	3.3	3.5	4.0
Net Loans/Investments	2.0	0.9	0.2
Debt Maturities:			
Currently Outstanding	14.3	20.1	14.4
Incremental Impact of Future Financing	–	–	0.6
Debt Redemptions	1.0	0.7	0.7
Total Funding Requirement	**19.7**	**24.1**	**18.8**
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease/(Increase) in Short-Term Borrowing	(0.5)	(0.6)	0.9
Increase/(Decrease) in Cash and Cash Equivalents	(1.1)	–	–
Total Long-Term Public Borrowing Requirement	**17.7**	**22.9**	**19.0**

As at June 30, 2007.

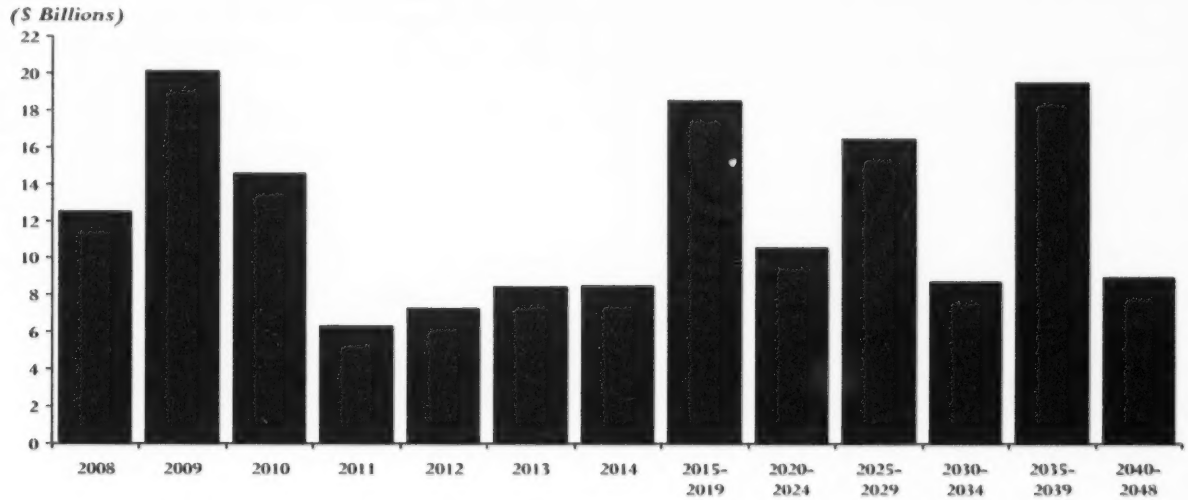
Debt Management

Debt	
Total Debt	$159.4 billion
Net Debt	$142.8 billion
Net Debt/GDP	24.8%
Debt Statistics	
Percentage Publicly Held	86.2%
Percentage Issued in Canadian Dollars	81.8%
Effective Interest Rate (Weighted Average)	5.98%

Risk Exposures (% of debt)	Current	Policy Limit
Province		
Interest Rate Resetting Exposure	16.4%	35.0%
Foreign Exchange Exposure	0.5%	5.0%
OEFC		
Interest Rate Resetting Exposure	20.3%	35.0%
Foreign Exchange Exposure	0%	5.0%

Total Debt represents consolidated non-public and publicly held debt. Net Debt represents the difference between total liabilities and total financial assets. As of June 30, 2007.

Debt Maturities



As at June 30, 2007. Province and OEFC. Excludes short-term debt and other liabilities and the incremental impact of future refinancing. Assumes issues with options will be retired at the earliest possible date. Fiscal year ending March 31.

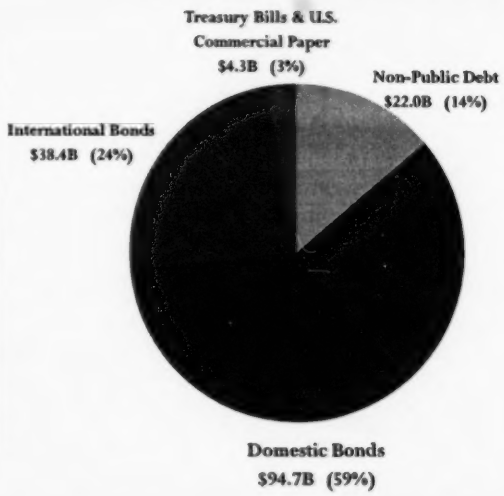
Debt Portfolio

- Total debt of $159.4 billion is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.
- Public debt totals $137.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also had $22.0 billion outstanding in non-public debt issued in Canadian dollars.

Debt issued outside of Canada in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- Pound sterling
- South African rand
- Hong Kong dollar
- Turkish lira

As at June 30, 2007.



Economic Outlook

- Ontario's real GDP grew by 0.7 per cent (2.7 per cent annualized) in the first calendar quarter of 2007, matching its rate of growth in the fourth quarter of 2006. The increase was due mainly to net trade, as exports grew faster than imports.
- Moderate economic growth is projected in 2007, with real GDP rising by 1.6 per cent, following an increase of 1.8 per cent in 2006. The continued modest rate of economic growth reflects the appreciation of the Canadian dollar, continuing high oil prices, higher interest rates and an easing in the pace of growth in the U.S. economy. The average private-sector forecast for economic growth is currently 1.8 per cent for 2007, up from 1.7 per cent at the time of the 2007 Budget.

Ontario Economic Outlook
(Per Cent)

	2005	2006	2007p	2008p	2009p
Real GDP Growth	2.9	1.8	1.6	2.8	3.1
Nominal GDP Growth	4.1	3.6	3.1	4.7	4.7
Unemployment Rate	6.6	6.3	6.3	6.2	6.1
CPI Inflation	2.2	1.8	1.3	1.9	1.9

p = projection. *Sources:* Statistics Canada and Ontario Ministry of Finance.

- Over the first seven months of 2007, employment is up 1.3 per cent compared to the same period in 2006. In July, the unemployment rate was 6.6 per cent.
- Over the first five months of 2007, retail sales are 4.3 per cent higher than the same period in 2006.
- Home resales surged 14.1 per cent in June (year-to-year) to 23,326 units, the second highest monthly level on record following an all-time high in May. On a year-to-date basis, home resales are up 9.0 per cent so far in 2007. Over the first seven months of 2007, housing starts are 16.2 per cent lower than during the same period last year.
- So far this year, international exports are 6.0 per cent ahead of the same period last year while imports are up 7.5 per cent. Over the first five months of 2007, manufacturing shipments are 0.7 per cent below their value for the same period last year.
- The Ontario's annual CPI inflation rate was 1.6 per cent in June (year-to-year), down from 1.9 per cent in May. The annual CPI inflation rate was 1.8 per cent in 2006.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

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